A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# Department of Commerce

## For the Two Fiscal Years Ended June 30, 2011

JANUARY 2012

LEGISLATIVE AUDIT
DIVISION

*11-16*

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§5-13-202(2), MCA

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January 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce (department) for the two fiscal years ended June 30, 2011. The report contains five recommendations related to the department's compliance with the Montana Constitution and state law, grant payment controls, and federal regulations.

The department's written response to the audit recommendations is included in the audit report beginning on page B-1. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA
Legislative Auditor

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# Figures and Tables

## Tables

# Appointed and Administrative Officials

**Department of Commerce**

Dore Schwinden, Director

Andy Poole, Deputy Director, Business Resources Division Administrator, and Energy Promotion and Development Division Administrator

Marty Tuttle, Chief Legal Counsel

Kelly A. Casillas, Administrator, Community Development Division

Anna Marie Moe, Interim Administrator, Montana Promotion Division through August 14, 2011

Jeri Duran, Administrator, Montana Promotion Division, effective August 15, 2011

Bruce Brensdal, Administrator, Housing Division

Carroll South, Executive Director, Board of Investments

Michelle Barstad, Executive Director, Montana Facility Finance Authority

Dave Desch, Executive Director, Board of Research and Commercialization Technology

Marilyn Ross, Acting Executive Director, Montana Heritage Preservation and Development Commission

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Montana Legislative Audit Division

Financial-Compliance

# Department of Commerce

## For the Two Fiscal Years Ended June 30, 2011

January 2012 11-16 Report Summary

The Department of Commerce (Commerce) is charged statutorily with a variety of responsibilities including but not limited to: community development, housing programs, tourism promotion, Coal and Hardrock mining boards, Micro Business Loan Program, and the Montana Heritage Program. This audit report includes three recommendations directed to the department for improvements in its grant program controls.

## Context

During fiscal years 2010 and 2011 the department granted funds from both state and federal sources totaling approximately $190 million. The grant programs are primarily administered by four different divisions at the department: Business Resources, Community Development, Housing, and the Director's Office. Grant programs administered by the department include Community Development, Block Housing and Planning, Treasure State Endowment, and Coal Board.

## Results

This report includes five recommendations to the department. We found the department made disbursements of approximately $2.0 million without an appropriation which is contrary to requirements in the Constitution and state law. We also identified several aspects in which the department's control structure over the grants system should be improved. The report includes control recommendations related to payment and contract approvals and subrecipient monitoring.

| Recommendation Concurrence | |
|---|---|
| Concur | 2 |
| Partially Concur | 1 |
| Do Not Concur | 2 |
| **Source: Agency audit response included in final report.** | |

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# Chapter I – Introduction

## Introduction

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2011. The accompanying financial schedules include activity that we audit as part of other engagements. These audits are Board of Housing (10-07, 11-07), Board of Investments (10-04A, 10-04B), and Montana Facility Finance Authority (10-12). The reports are available upon request. The objectives of this audit were to:

1. Determine if the financial schedules present fairly the results of operations and changes in fund balances of the department for each of the two fiscal years ended June 30, 2011, and June 30, 2010.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the department.
3. Determine the department's compliance with selected applicable state and federal laws and regulations.
4. Determine the implementation status of prior audit recommendations.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 below outlines the status of control deficiencies we identified during the audit.

Table 1
**Summary of Control Deficiencies**

| Subject | Significant Deficiency | Material Weakness | Page |
|---|---|---|---|
| Authorization Controls for Grant Expenditures | Yes | No | 9 |

This audit report includes five recommendations to the department including the department's compliance with the Constitution and state law regarding disbursements and its grant program controls. In accordance with §5-13-307, MCA, we have disclosed the cost, if significant, of implementing these recommendations.

## Internal Service Fund Review

State law, §17-8-101(6), MCA, requires the Legislative Auditor to audit and report on the reasonableness of internal service fund type fees and charges and on the fund equity balances. The department has two internal services funds; one is for the Director's Office/Management Services (DO), and the other is for the costs of the Investment Program operated by the Montana Board of Investments. State accounting policy defines working capital as the amount of cash that would remain if all of the current assets were converted, and all of the current liabilities paid, at their book value. State policy requires agencies to use working capital as their basis for rate calculation in internal service funds and federal guidelines suggest a 60 day working capital reserve is considered reasonable. Based on this criterion, we used a 60 day working capital reserve as the measure to determine if the fund equity balances of the department's two internal service funds are reasonable.

### Director's Office

We determined the DO internal services fund rate charged for its services during the audit period was reasonable based on costs. Using personal services as a base, the department charges both federal and state programs at the department for central services. We found, however, that fund balance for fiscal years 2010 and 2011 is not reasonable based on excessive working capital. In both fiscal years, the working capital exceeded the 60-day federal guideline by approximately 35 days. According to department personnel, much of this increase is attributable to the increase of approximately $50.0 million in funding from the American Recovery and Reinvestment Act, increasing the personal service base. This was unknown when the rates were calculated for the 2011 biennium. We noted the rate setting process, appropriately, considers the results of operations from the previous years. For the 2013 biennium, the department calculated the rate as 13.2 percent, however the legislative approved rate was only 12.95 percent. Because the department must use the lower rate for fiscal years 2012 and 2013, it appears its working capital and fund balance will decrease. As a result, we are not recommending the department take any specific action at this time; however, it will be subject to review in future audits.

### Investment Program

Based on our review, we determined the Investment Program internal service fund rate charged for the services during the audit period was reasonable based on costs.

We concluded the fund balance at June 30, 2011, is not reasonable based on excessive working capital. The working capital exceeded the 60 day federal guideline by approximately 20 days. Department personnel identified this excessive working capital and reduced their collections in July 2011 to reduce the working capital to more closely line up with the 60-day working capital federal guideline. Personnel indicated they will continue to monitor throughout the year to determine if other reductions are necessary. Based on their system of monitoring working capital and adjusting their collections as necessary, it appears the working capital will decrease based on charging less for July. As a result, we make no recommendation at this time; however, it will be subject to review in future audits.

## Background

The Department of Commerce is responsible for encouraging and promoting economic and community development. The department consists of five divisions and several entities attached to the department for administrative purposes. The Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Coal Board, Hard Rock Mining Impact Board, State Tribal Economic Development Commission, and Montana Heritage Preservation and Development Commission are administratively attached to the department. The following is a description of the various divisions and entities comprising the department, including the number of full-time equivalent (FTE) positions for each.

**Director's Office** (24.50 FTE) - administers the department and its divisions by providing executive, administrative, legal, and policy guidance, and provides internal support to all department divisions such as budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training. The division also provides analysis, development, maintenance, and supervision of department data processing systems and hardware.

**Montana Promotion Division** (28.50 FTE) - is responsible for promoting a positive image of the state through advertising, publicity and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies.

**Business Resources Division** (45.83 FTE) - includes programs to enhance Montana's economic and business climate, assist businesses and communities in achieving economic prosperity, and build the economic base of Montana through business creation, expansion, and retention efforts.

**Community Development Division** (22.00 FTE) - works with federal, state, and local governments and the private sector in areas of community development. The division provides financial and technical assistance through three primary programs. These include the Community Development Block Grant Program (CDBG), Community Technical Assistance Program (CTAP), and Treasure State Endowment Program (TSEP). The Coal Board and the Hard Rock Mining Impact Board are independent citizen boards appointed by the governor that are attached to the division for administrative purposes.

**Energy Promotion and Development Division** (5.00 FTE) - serves as the front-line for state support for energy development in Montana. The division, created in 2007, assists in all aspects of potential energy projects, both energy production facilities and supportive energy delivery infrastructure.

**Montana Facility Finance Authority** (3.00 FTE) - issues tax-exempt bonds for eligible facilities at interest rates significantly below those that would be available at taxable bond rates. Eligible facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers.

**Board of Investments** (33.00 FTE) - invests state funds in accordance with the Montana Constitution and statutory requirements. The board manages eight investment portfolios: 1) the All Other Funds portfolio; 2) Montana Domestic Equity Pool; 3) Short-Term Investment Pool; 4) Trust Funds Investment Pool; 5) Retirement Funds Bond Pool; 6) Montana Real Estate Pool; 7) Montana International Equity Pool; and 8) Montana Private Equity Pool. The board also administers several programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or to provide funds to improve the state's economy.

**Board of Research and Commercialization Technology** (2.00 FTE) - provides a predictable and stable source of funding for research and commercialization projects; expands and strengthens research efforts for the state's basic industries to increase their impact on the state's economy; and expands research efforts into areas beyond the scope of the state's basic industries.

**Housing Division** (47.00 FTE) - administers the federal Section 8 Housing Programs which provide rent subsidies to eligible low-income families and individuals as well as Montana Home Investment Partnership Program (HOME) program and the Montana Board of Housing (MBOH). The HOME program provides funds to strengthen

public/private partnerships to provide more affordable housing. The MBOH helps provide decent, safe, sanitary, and affordable housing to lower income individuals and families. Board of Housing moneys are made available through issuance of revenue and general obligation bonds.

**Montana Heritage Preservation and Development Commission** (24.25 FTE) - manages certain state-owned historic properties located at Virginia City, Nevada City, and Reeder's Alley in Helena.

## Prior Audit Recommendations

We performed the prior audit of the department for the two fiscal years ended June 30, 2009. The report contained five recommendations. The department implemented all of the recommendations.

# Chapter II – Findings and Recommendations

## Delay in Charging Appropriations for Disbursements

**During fiscal years 2010 and 2011 the department disbursed approximately $2 million from the state treasury and did not immediately charge an appropriation as required by the Constitution and state law.**

The Montana State Constitution Article VIII, Section 14 states, "… Prohibited payment. Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof." In addition, state law in §17-8-101, MCA, states, "...(1) For purposes of complying with Article VIII, section 14, of the Montana constitution, money deposited in the general fund, the special revenue fund type … may be paid out of the treasury only on appropriation made by law." The law also includes some exceptions to the requirement.

We found five different disbursement situations as summarized in the table below in which the department disbursed funds from the state treasury and did not immediately charge an appropriation on SABHRS.

Table 2
**Disbursement From the Treasury Without an Appropriation**

| Types of Payments and From Which Fund | Amount of Disbursements | Length of Time Between Disbursement of Funds and Charge to an Appropriation |
|---|---|---|
| Treasure State Endowment Payments (TSEP) from the State Special Revenue Fund. | $321,482 | 2 days |
| HB 645 (2009 Legislature) County Payment from the General Fund. | $144,488 | 2 days |
| Deferred Maintenance Payments from the State Special Revenue Fund. | $1,357,797 | 5 days |
| American Recovery and Reinvestment Act–Community Development Block Grant Funds (ARRA–CDBG) from the Federal Special Revenue Fund. | $200,000 | 8 days |
| Rental Payments, mostly from the General Fund, with some from the Federal Special Revenue Funds. | $64,390 | Ranged from 4 days to 4.5 months with 96% of the payments at 4.5 months |
| **Total** | **$2,088,157** | |

**Source: Compiled by the Legislative Audit Division from Statewide Accounting, Budgeting, and Human Resource System.**

None of the situations met the exclusions in the Constitution or state law. In each case, an appropriation was eventually charged; however, a delay occurred between the disbursement and the appropriation charge. The legislature authorizes and limits spending by state agencies through appropriations that are established on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS). The normal process for disbursing funds from the treasury is to process an expenditure transaction on SABHRS, which reduces an appropriation and creates a warrant for the amount of the disbursement.

For TSEP, HB 645, deferred maintenance, and ARRA-CDBG payments, the department had available appropriation authority to make the payments, but it was not established in the correct year or account. Department personnel indicated in all cases they had available appropriation authority but they were under pressure to get payments out quickly. For the rent payments, department personnel indicated the reason for the delay in charging an appropriation is because their process to allocate rent to programs is not complete by the time the payment is due. Personnel indicated for the other situations that their process of using a clearing account to quickly make disbursement while waiting for appropriation authority to be transferred between years or accounts reduces the chance of errors because it requires fewer accounting transactions. However, regardless of the immediacy of the payments, fewer accounting transactions, or delays by OBPP, the department should not make disbursements from the treasury without an immediate corresponding appropriation charge as required by the Constitution and state law.

**Recommendation #1**

*We recommend the department disburse funds from the treasury only upon an appropriation charge as required by the Montana State Constitution and state law.*

## Grant Internal Controls

Federal regulations and state policy require the department to implement an adequate system of controls to address fiscal control and accountability as well as to ensure the department complies with state and federal laws and regulations. A properly implemented and effective control structure provides a mechanism to prevent or detect and correct errors in financial records or instances of noncompliance with state and federal laws in a timely manner.

Table 3
**Total Grant Expenditures**
Grant Expenditures by Department Programs
(in Millions)

| | FY 2010 | FY 2011 |
|---|---|---|
| Business Resource | $14.9 | $10.3 |
| Community Development | $40.3 | $46.3 |
| Housing | $17.9 | $12.3 |
| Management Services | $33.9 | $12.3 |
| Facilities Finance | $0.7 | $0 |
| Montana Promotion | $0.8 | $0.5 |
| **Total** | **$107.9** | **$82.0** |

**Source: Compiled by the Legislative Audit Division from the Statewide Accounting, Budgeting, and Human Resource System.**

The department expended over $107 million and $82 million, respectively, in grants from state and federal sources in fiscal years 2010 and 2011 from six of the department's nine programs as shown in Table 3. The following sections discuss areas where the department can improve internal controls related to authorization for grant payments and subrecipient monitoring.

## Authorization Controls

**The department did not follow its established authorization controls to ensure all grant payments are valid.**

During the audit the department represented to us it had two primary authorization controls in place related to grant expenditures. Our testing of 37 grant expenditure transactions included a review of the payment authorizations as well as the associated contract authorization. Below is a description of each control and the exceptions we found.

**Contract Approval** – Before the department enters into a contract, the contract has to be approved by the appropriate division administrator or designee as well as legal and fiscal personnel. We identified five contracts where one or more of the three required approvals were missing. Of the five contracts, three did not have division administrator approval, one did not have fiscal approval, and the other did not have any of the three required approvals.

**Program Payment Approval** – The department requires an authorized division bureau chief or supervisor to approve payment requests. We found one instance in which a payment was not authorized as required.

Department personnel could not explain the missing contract authorizations for any of the five exceptions, although personnel indicated the approval by legal division is the most critical of the three required approvals. For the one payment approval exception, personnel indicated the program approval was by a former employee who now works for the nonprofit entity receiving the grant funds.

We believe the department's established contract and payment authorization controls are vital to its overall control structure regarding grant payments. Adequate authorization controls are important to ensure the department pays only valid grant expenditures and complies with applicable state and federal laws and regulations.

***Recommendation #2***

*We recommend the department follow its established authorization controls to ensure all grant payments are valid.*

## Subrecipient Monitoring

The following two report sections discuss instances where the department's subrecipient monitoring control system is not adequate to ensure funds disbursed by the department are spent as required by state and federal funding sources.

### Deferred Maintenance

**The department did not implement adequate controls that would ensure compliance with legislative intent regarding $20 million disbursed to Montana school districts.**

The 2009 Legislature authorized and directed the Department of Commerce through appropriation language in House Bill 645 to make disbursements to school districts totalling $20 million. The appropriation language required the school districts to use the funds for deferred maintenance and energy efficient improvements.

After each school district signed an assurance document with the Governor's Office the department entered into contracts and disbursed 90 percent of the funds. To receive

the final 10 percent disbursement, the school districts were required to submit a final closeout report with a narrative of the project objectives and information on who they paid with the contract funds. The department did not verify any information on the final closeout reports (i.e. obtain receipts or other documentation) prior to making the final 10 percent payment and did not perform any specific monitoring for contract compliance for this program.

Department personnel indicated they relied on the fact that school districts signed the assurance document as a condition of receiving the funds as well as the monitoring of all school district audit reports that occurs at the Office of Public Instruction (OPI). In addition, personnel indicated that monitoring of the program occurred in conjunction with other monitoring that was performed by department personnel for other programs. However, the department was unable to provide us documentation of this monitoring during the audit. We do not believe the signed assurance document and the monitoring of audit reports by OPI are adequate controls for the department to ensure school districts complied with the terms of the contracts and spent the funds as stipulated by the Legislature in the appropriation language.

***Recommendation #3***

*We recommend the department monitor subrecipients for contract compliance to ensure that funds are expended as intended.*

## Montana Council on Developmental Disabilities (MCDD)

**Commerce does not have adequate controls in place to ensure federal reimbursements to MCDD are allowable under federal regulations and the state plan.**

The department is designated in both state and federal law as the state agency to receive funds under the Developmental Disabilities Basic Support and Advocacy Grant. During our audit period, the department disbursed approximately $750,000 of these funds to MCDD, a private nonprofit corporation. Federal regulations require these funds be received by a state agency. The federal regulations specifically assigns the state agency several responsibilities, including fiscal responsibilities to receive, account for, and disburse funds based on the state plan.

Generally, the federal regulations require that for expenditures to be allowable they must be reasonable and adequately documented. We reviewed several reimbursement requests from MCDD that were paid by the department and found examples described below. The examples indicate the department's controls are not adequate to ensure its documentation is sufficient to demonstrate that reimbursements to MCDD are allowable in accordance with federal regulations.

- A reimbursement included a "bar bill" of $40. Federal regulations specifically prohibit the purchase of alcohol with federal funds. After we brought this bill to the department's attention, MCDD removed $40 from a subsequent claim related to this item.
- Detailed support for reimbursements of $2,303 and $14,086 was missing from the department's files. The amounts were included in total on the MCDD claim.
- A reimbursement for annual membership dues for $545 was reimbursed without any support for the type of membership. Not all types of memberships are allowable under federal regulations.
- A reimbursement of $60.50 for "petty cash" was made with no other explanation or documentation.

Subsequent to our review of the items discussed above, MCDD provided additional support to the department to demonstrate allowability for the missing detailed support for $2,303 and $14,086 and the membership dues. However, we believe it is likely the department does not have adequate support on file to demonstrate the allowability for other reimbursements. As a result, we believe questioned costs for unsupported expenditures for this federal program may exceed $10,000.

We noted the person approving the reimbursements at the department does not have a copy of the state plan and department personnel indicated no other types of monitoring controls of MCDD are in place. Personnel indicated they rely on the personnel at MCDD as having approved the expenditures, as well as an accounting review of MCDD that includes completeness of the expense documentation. Although approvals and an independent review of MCDD may lessen the risk of unallowable expenditures by MCDD, they do not relieve the department from its responsibility to ensure it has adequate support to demonstrate its reimbursements to MCDD are for allowable federal costs.

**Recommendation #4**

*We recommend the department implement controls to ensure reimbursements to MCDD are allowable per the state plan and federal regulations.*

## Compliance with ARRA Requirements

**The department did not provide all subrecipients receiving American Recovery and Reinvestment Act (ARRA) funds with information required by federal regulations.**

Federal regulations require the department to identify to each ARRA subrecipient several pieces of information at time of subaward including: Catalog of Federal Domestic Assistance (CFDA) title and number, federal grant award name and number, and amount of ARRA funds.

The department did not provide the subrecipients receiving the ARRA funds with all of the information required by federal regulations discussed above. Specially, the contracts did not contain the CFDA title or the federal grant award name and number. However, the contract number was provided on the payment advice. Department personnel indicated they were not aware of all the requirements.

As a result, approximately $1.74 million out of $1.79 million of ARRA Community Development Block Grant funds was disbursed to subrecipients without the information required by federal regulations. Department personnel said they provided the required information to the subrecipients on subsequent disbursements.

Since additional federal requirements exist for ARRA funding, subrecipients are at risk of noncompliance with ARRA regulations if they do not receive all of the required information. The department is responsible for subrecipient compliance with federal regulations.

**Recommendation #5**

*We recommend the department comply with federal regulations regarding information required to be provided to ARRA subrecipients.*

# Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

# Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Commerce for each of the fiscal years ended June 30, 2011, and 2010. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Commerce for each of the fiscal years ended June 30, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA
Deputy Legislative Auditor

October 11, 2011

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DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Capital Projects Fund | Enterprise Fund | Internal Service Fund | Investment Trust Fund | Permanent Fund |
|---|---|---|---|---|---|---|---|---|
| FUND BALANCE: July 1, 2010 | $ (4,098,189) | $ 66,184,306 | $ (7,768,547) | $ (12,208) | $ 175,153,794 | $ 487,407 | $ 358,539,815 | $ 0 |
| ADDITIONS | | | | | | | | |
| Budgeted Revenues & Transfers-In | 250,012 | 2,761,686 | 31,002,040 | | 41,896,439 | 5,919,813 | | 31,694 |
| Nonbudgeted Revenues & Transfers-In | 38,465 | 15,222,165 | 11,978 | 7 | 41,037,520 | 167 | 808,609,849 | |
| Prior Year Revenues & Transfers-In Adjustments | | | 104,705 | | 82,664 | | | |
| Direct Entries to Fund Balance | 11,431,414 | 27,625,808 | 2,563,775 | 425,732 | (775) | (49,671) | | |
| Total Additions | 11,719,891 | 45,609,659 | 33,682,498 | 425,739 | 83,015,848 | 5,870,309 | 808,609,849 | 31,694 |
| REDUCTIONS | | | | | | | | |
| Budgeted Expenditures & Transfers-Out | 17,098,658 | 67,604,335 | 30,310,556 | 419,228 | 80,617,824 | 5,724,479 | | |
| Nonbudgeted Expenditures & Transfers-Out | 2,528 | (54,398) | 1,692 | 41 | 287,834 | 93,089 | 751,927,979 | |
| Prior Year Expenditures & Transfers-Out Adjustments | (117,808) | (405,170) | (1,085,970) | (417) | 21,850 | 23,100 | | |
| Total Reductions | 16,983,378 | 67,144,767 | 29,226,278 | 418,852 | 80,927,508 | 5,840,668 | 751,927,979 | 0 |
| FUND BALANCE: June 30, 2011 | $ (9,361,676) | $ 44,649,198 | $ (3,312,327) | $ (5,321) | $ 177,242,134 | $ 517,048 | $ 415,221,685 | $ 31,694 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Capital Projects Fund | Enterprise Fund | Internal Service Fund | Investment Trust Fund |
|---|---|---|---|---|---|---|---|
| FUND BALANCE: July 1, 2009 | $ (5,441,549) | $ 40,299,102 | $ (14,166,422) | $ (46,497) | $ 171,907,408 | $ 418,855 | $ 425,320,891 |
| ADDITIONS | | | | | | | |
| Budgeted Revenues & Transfers-In | 250,625 | 18,744,482 | 41,884,600 | | 43,148,475 | 6,448,388 | |
| Nonbudgeted Revenues & Transfers-In | 10,906 | 49,240,460 | 109 | 10 | 48,837,948 | 40 | 772,814,884 |
| Prior Year Revenues & Transfers-In Adjustments | | (1,274) | (16,969) | | (702) | 14,032 | |
| Direct Entries to Fund Balance | 34,194,691 | 28,268,811 | 829,680 | 631,786 | | (47,163) | |
| Total Additions | 34,456,222 | 96,252,479 | 42,697,420 | 631,796 | 91,985,721 | 6,415,297 | 772,814,884 |
| REDUCTIONS | | | | | | | |
| Budgeted Expenditures & Transfers-Out | 33,807,842 | 84,389,600 | 41,171,611 | 597,286 | 87,884,512 | 5,747,260 | |
| Nonbudgeted Expenditures & Transfers-Out | 1,143 | (5,928,104) | (4,314,845) | 221 | 901,179 | 626,286 | 839,595,960 |
| Prior Year Expenditures & Transfers-Out Adjustments | (696,123) | (8,094,221) | (557,221) | | (46,356) | (26,801) | |
| Total Reductions | 33,112,862 | 70,367,275 | 36,299,545 | 597,507 | 88,739,335 | 6,346,745 | 839,595,960 |
| FUND BALANCE: June 30, 2010 | $ (4,098,189) | $ 66,184,306 | $ (7,768,547) | $ (12,208) | $ 175,153,794 | $ 487,407 | $ 358,539,815 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Capital Projects Fund | Enterprise Fund | Internal Service Fund | Investment Trust Fund | Permanent Fund | Total |
|---|---|---|---|---|---|---|---|---|---|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | | | | |
| Taxes | $ 2,784 | | $ 70 | $ 7 | $ 737 | | | | $ 3,598 |
| Charges for Services | 12 | $ 136,406 | | | 1,076,140 | $ 5,580,380 | | | 6,792,938 |
| Investment Earnings | | 357,781 | 186,407 | | 40,263,803 | | $ 945,397 | | 41,753,388 |
| Fines and Forfeits | | 187 | | | | | | | 187 |
| Sale of Documents, Merchandise and Property | | 45,763 | | | 41,081 | | | $ 31,694 | 118,538 |
| Rentals, Leases and Royalties | | 155,696 | | | | | | | 155,696 |
| Contributions and Premiums | | 220 | | | | | 807,664,452 | | 807,664,672 |
| Grants, Contracts, and Donations | | 599,296 | | | | | | | 599,296 |
| Transfers-in | 285,681 | 16,683,170 | 11,875 | | | | | | 16,980,726 |
| Intra-entity Revenue | | | | | 17,955 | | | | 17,955 |
| Federal Indirect Cost Recoveries | | | | | 12,218 | 339,600 | | | 351,818 |
| Miscellaneous | | 5,332 | | | | | | | 5,332 |
| Federal | | | 30,920,371 | | 41,604,689 | | | | 72,525,060 |
| Total Revenues & Transfers-In | 288,477 | 17,983,851 | 31,118,723 | 7 | 83,016,623 | 5,919,980 | 808,609,849 | 31,694 | 946,969,204 |
| Less: Nonbudgeted Revenues & Transfers-In | 38,465 | 15,222,165 | 11,978 | 7 | 41,037,520 | 167 | 808,609,849 | | 864,920,151 |
| Prior Year Revenues & Transfers-In Adjustments | | | 104,705 | | 82,664 | | | | 187,369 |
| Actual Budgeted Revenues & Transfers-In | 250,012 | 2,761,686 | 31,002,040 | 0 | 41,896,439 | 5,919,813 | 0 | 31,694 | 81,861,684 |
| Estimated Revenues & Transfers-In | 250,012 | 2,844,587 | 32,215,828 | | 41,927,127 | 8,294,757 | | 31,700 | 85,564,011 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ (0) | $ (82,901) | $ (1,213,788) | $ 0 | $ (30,688) | $ (2,374,944) | $ 0 | $ (6) | $ (3,702,327) |
| | | | | | | | | | |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | | | | |
| Licenses and Permits | | $ (50) | | | | | | | $ (50) |
| Charges for Services | | (57,005) | | | $ 65,064 | $ (2,173,227) | | | (2,165,168) |
| Investment Earnings | | 17,913 | $ 50,188 | | (682,729) | | | | (614,628) |
| Sale of Documents, Merchandise and Property | | (7,287) | | | (62,419) | | | $ (6) | (69,712) |
| Rentals, Leases and Royalties | | (11,304) | | | | | | | (11,304) |
| Contributions and Premiums | | (6,980) | | | | | | | (6,980) |
| Grants, Contracts, and Donations | | (19,304) | | | | | | | (19,304) |
| Transfers-in | | 16,870 | | | | | | | 16,870 |
| Intra-entity Revenue | | | | | (2,045) | | | | (2,045) |
| Federal Indirect Cost Recoveries | | | | | (8,341) | (201,717) | | | (210,058) |
| Miscellaneous | | (15,754) | | | | | | | (15,754) |
| Federal | | | (1,263,976) | | 659,782 | | | | (604,194) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ (0) | $ (82,901) | $ (1,213,788) | $ 0 | $ (30,688) | $ (2,374,944) | $ 0 | $ (6) | $ (3,702,327) |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Capital Projects Fund | Enterprise Fund | Internal Service Fund | Investment Trust Fund | Total |
|---|---|---|---|---|---|---|---|---|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | | | |
| Licenses and Permits | | $ 4,230 | | | | | | $ 4,230 |
| Taxes | $ 3,907 | 12,282 | $ 87 | $ 10 | $ 1,207 | | | 17,493 |
| Charges for Services | 25 | 191,934 | 10,111 | | 1,047,486 | $ 6,225,059 | | 7,474,615 |
| Investment Earnings | | 252,489 | 12,193 | | 49,717,513 | | $ 1,088,072 | 51,070,267 |
| Sale of Documents, Merchandise and Property | | 58,755 | | | 103,300 | | | 162,055 |
| Rentals, Leases and Royalties | | 172,628 | | | | | | 172,628 |
| Contributions and Premiums | | 7,620 | | | | | 771,726,812 | 771,734,432 |
| Grants, Contracts, and Donations | 625 | 700,495 | | | | 12 | | 701,132 |
| Transfers-in | 256,974 | 66,576,220 | 770,146 | | 1,193,049 | | | 68,796,389 |
| Intra-entity Revenue | | | | | 22,299 | | | 22,299 |
| Federal Indirect Cost Recoveries | | | | | 18,600 | 237,389 | | 255,989 |
| Miscellaneous | | 7,015 | | | | | | 7,015 |
| Federal | | | 41,075,203 | | 39,882,267 | | | 80,957,470 |
| Total Revenues & Transfers-In | 261,531 | 67,983,668 | 41,867,740 | 10 | 91,985,721 | 6,462,460 | 772,814,884 | 981,376,014 |
| Less: Nonbudgeted Revenues & Transfers-In | 10,906 | 49,240,460 | 109 | 10 | 48,837,948 | 40 | 772,814,884 | 870,904,357 |
| Prior Year Revenues & Transfers-In Adjustments | | (1,274) | (16,969) | | (702) | 14,032 | | (4,913) |
| Actual Budgeted Revenues & Transfers-In | 250,625 | 18,744,482 | 41,884,600 | 0 | 43,148,475 | 6,448,388 | 0 | 110,476,570 |
| Estimated Revenues & Transfers-In | 4,401,475 | 18,621,240 | 49,365,280 | | 509,363,204 | 6,336,002 | | 588,087,201 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ (4,150,850) | $ 123,242 | $ (7,480,680) | $ 0 | $ (466,214,729) | $ 112,386 | $ 0 | $ (477,610,631) |
| | | | | | | | | |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | | | |
| Licenses and Permits | | $ (2,785) | | | | | | $ (2,785) |
| Taxes | | (18,466) | | | | | | (18,466) |
| Charges for Services | | (103,942) | $ (45,488) | | $ (27,906) | $ 112,297 | | (65,039) |
| Investment Earnings | | (38,591) | (3,026) | | (466,692,029) | | | (466,733,646) |
| Sale of Documents, Merchandise and Property | | 2,364 | | | | | | 2,364 |
| Rentals, Leases and Royalties | | (5,788) | | | | | | (5,788) |
| Contributions and Premiums | | (2,125) | | | | | | (2,125) |
| Grants, Contracts, and Donations | $ (850) | (97,282) | | | | (551) | | (98,683) |
| Transfers-in | (4,150,000) | 390,563 | (63) | | | | | (3,759,500) |
| Intra-entity Revenue | | | | | (2,701) | | | (2,701) |
| Federal Indirect Cost Recoveries | | | | | (85) | 640 | | 555 |
| Miscellaneous | | (706) | | | | | | (706) |
| Federal | | | (7,432,103) | | 507,992 | | | (6,924,111) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ (4,150,850) | $ 123,242 | $ (7,480,680) | $ 0 | $ (466,214,729) | $ 112,386 | $ 0 | $ (477,610,631) |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | BOARD OF INVESTMENTS | BUSINESS RESOURCES DIVISION | COMMUNITY DEVELOPMENT DIVISION | ENERGY PROMOTION & DEVELOPMENT DIVISION | HOUSING DIVISION | MANAGEMENT SERVICES DIVISION | MONT. FACILITY FINANCE AUTHORITY | MONTANA HERITAGE COMMISSION | MONTANA PROMOTION DIVISION | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | | | | | | | | | | |
| Personal Services | | | | | | | | | | |
| Salaries | $ 1,975,916 | $ 1,528,546 | $ 839,219 | $ 195,628 | $ 1,789,675 | $ 1,360,048 | $ 138,534 | $ 545,999 | $ 1,213,850 | $ 9,587,415 |
| Other Compensation | 7,650 | 900 | 1,200 | | 3,800 | | 6,350 | | | 19,900 |
| Employee Benefits | 520,942 | 510,508 | 276,648 | 63,458 | 657,466 | 399,188 | 44,146 | 184,827 | 436,582 | 3,093,765 |
| Personal Services-Other | (13,794) | | | | 7,415 | (28,302) | 545 | | | (34,136) |
| Total | 2,490,714 | 2,039,954 | 1,117,067 | 259,086 | 2,458,356 | 1,730,934 | 189,575 | 730,826 | 1,650,432 | 12,666,944 |
| Operating Expenses | | | | | | | | | | |
| Other Services | 1,267,738 | 2,973,138 | 139,351 | 76,598 | 5,298,887 | 68,700 | 43,489 | 170,532 | 5,015,637 | 15,054,070 |
| Supplies & Materials | 32,235 | 105,505 | 65,847 | 6,370 | 112,235 | 77,935 | 5,959 | 70,051 | 137,485 | 613,622 |
| Communications | 42,293 | 98,218 | 40,727 | 22,820 | 114,474 | 29,648 | 6,128 | 41,862 | 6,029,312 | 6,425,482 |
| Travel | 33,119 | 100,549 | 31,028 | 10,382 | 72,895 | 23,865 | 17,176 | 30,195 | 89,508 | 408,717 |
| Rent | 203,792 | 174,496 | 92,754 | 13,864 | 207,968 | 134,428 | 22,262 | 21,557 | 215,935 | 1,087,056 |
| Utilities | | 3,062 | | | | | | 92,070 | | 95,132 |
| Repair & Maintenance | 2,700 | 9,075 | 11,831 | 877 | 329,181 | 12,746 | 260 | 151,045 | 34,562 | 552,277 |
| Other Expenses | 371,785 | 473,413 | 182,760 | 85,730 | 824,457 | 114,790 | 37,999 | 118,800 | 675,591 | 2,885,325 |
| Goods Purchased For Resale | | | | | | | | 14,295 | | 14,295 |
| Total | 1,953,662 | 3,937,456 | 564,298 | 216,641 | 6,960,097 | 462,112 | 133,273 | 710,407 | 12,198,030 | 27,135,976 |
| Equipment & Intangible Assets | | | | | | | | | | |
| Equipment | | | | | | | | | 22,096 | 22,096 |
| Intangible Assets | | | | | (24,853) | | | | | (24,853) |
| Total | | | | | (24,853) | | | | 22,096 | (2,757) |
| Capital Outlay | | | | | | | | | | |
| Buildings | | | | | | | | 6,310 | | 6,310 |
| Other Improvements | | | | | | | | 17,388 | | 17,388 |
| Total | | | | | | | | 23,698 | | 23,698 |
| Local Assistance | | | | | | | | | | |
| From State Sources | | | | | | | | | 4,453,031 | 4,453,031 |
| Total | | | | | | | | | 4,453,031 | 4,453,031 |
| Grants | | | | | | | | | | |
| From State Sources | | 7,891,282 | 34,501,038 | | | 12,536,599 | | | 475,874 | 55,404,793 |
| From Federal Sources | | 2,408,056 | 11,828,208 | | 12,319,932 | 56,959 | | | | 26,613,155 |
| Total | | 10,299,338 | 46,329,246 | | 12,319,932 | 12,593,558 | | | 475,874 | 82,017,948 |
| Benefits & Claims | | | | | | | | | | |
| From Federal Sources | | | | | 36,478,415 | | | | | 36,478,415 |
| STIP Distrib to Local Govts | 751,927,979 | | | | | | | | | 751,927,979 |
| Total | 751,927,979 | | | | 36,478,415 | | | | | 788,406,394 |
| Transfers-out | | | | | | | | | | |
| Fund transfers | | 1,536,875 | | 90,950 | | 35,681 | | | 582,669 | 2,246,175 |
| Intra-Entity Expense | | | | | | | 17,955 | | | 17,955 |
| Total | | 1,536,875 | | 90,950 | | 35,681 | 17,955 | | 582,669 | 2,264,130 |
| Debt Service | | | | | | | | | | |
| Bonds | 836,994 | | | | 34,379,898 | | | | | 35,216,892 |
| Total | 836,994 | | | | 34,379,898 | | | | | 35,216,892 |
| Other Post Employment Benefits | | | | | | | | | | |
| Other Post Employment Benefits | 81,804 | | | | 144,587 | 53,293 | 7,490 | | | 287,174 |
| Total | 81,804 | | | | 144,587 | 53,293 | 7,490 | | | 287,174 |
| Total Expenditures & Transfers-Out | $ 757,291,153 | $ 17,813,623 | $ 48,010,611 | $ 566,677 | $ 92,716,432 | $ 14,875,578 | $ 348,293 | $ 1,464,931 | $ 19,382,132 | $ 952,469,430 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | |
| General Fund | | $ 10,333,871 | $ 5,941,293 | $ 493,264 | | $ 214,950 | | | | $ 16,983,378 |
| State Special Revenue Fund | | 3,889,948 | 29,825,905 | | | 13,000,703 | | $ 1,046,079 | $ 19,382,132 | 67,144,767 |
| Federal Special Revenue Fund | | 3,589,804 | 12,243,413 | 73,413 | $ 13,262,689 | 56,959 | | | | 29,226,278 |
| Capital Projects Fund | | | | | | | | 418,852 | | 418,852 |
| Enterprise Fund | $ 1,125,472 | | | | 79,453,743 | | $ 348,293 | | | 80,927,508 |
| Internal Service Fund | 4,237,702 | | | | | 1,602,966 | | | | 5,840,668 |
| Investment Trust Fund | 751,927,979 | | | | | | | | | 751,927,979 |
| Total Expenditures & Transfers-Out | 757,291,153 | 17,813,623 | 48,010,611 | 566,677 | 92,716,432 | 14,875,578 | 348,293 | 1,464,931 | 19,382,132 | 952,469,430 |
| Less: Nonbudgeted Expenditures & Transfers-Out | 752,003,007 | (194,393) | 1,457 | (74) | 272,323 | 62,256 | 8,355 | 60 | 105,774 | 752,258,765 |
| Prior Year Expenditures & Transfers-Out Adjustments | 25,295 | (153,805) | (724,324) | (8,136) | (219,059) | (420,233) | 1,000 | 7,064 | (72,217) | (1,564,415) |
| Actual Budgeted Expenditures & Transfers-Out | 5,262,851 | 18,161,821 | 48,733,478 | 574,887 | 92,663,168 | 15,233,555 | 338,938 | 1,457,807 | 19,348,575 | 201,775,080 |
| Budget Authority | 6,376,656 | 26,356,155 | 63,400,651 | 615,187 | 126,804,799 | 15,703,779 | 454,638 | 2,343,649 | 20,288,557 | 262,344,071 |
| Unspent Budget Authority | $ 1,113,805 | $ 8,194,334 | $ 14,667,173 | $ 40,300 | $ 34,141,631 | $ 470,224 | $ 115,700 | $ 885,842 | $ 939,982 | $ 60,568,991 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | |
| General Fund | | $ 657,783 | $ 573,549 | $ 5,145 | | | | | | $ 1,236,477 |
| State Special Revenue Fund | | 5,583,458 | 1,569,722 | 30,000 | $ 150,000 | $ 214,963 | | $ 636,789 | $ 939,982 | 9,124,914 |
| Federal Special Revenue Fund | | 1,953,093 | 12,523,902 | 5,155 | 20,593,859 | 247,809 | | | | 35,323,818 |
| Capital Projects Fund | | | | | | | | 249,053 | | 249,053 |
| Enterprise Fund | $ 468,686 | | | | 13,397,772 | | $ 115,700 | | | 13,982,158 |
| Internal Service Fund | 645,119 | | | | | 7,452 | | | | 652,571 |
| Unspent Budget Authority | $ 1,113,805 | $ 8,194,334 | $ 14,667,173 | $ 40,300 | $ 34,141,631 | $ 470,224 | $ 115,700 | $ 885,842 | $ 939,982 | $ 60,568,991 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | BOARD OF INVESTMENTS | BUSINESS RESOURCES DIVISION | COMMUNITY DEVELOPMENT DIVISION | ENERGY PROMOTION & DEVELOPMENT DIVISION | HOUSING DIVISION | MANAGEMENT SERVICES DIVISION | MONT. FACILITY FINANCE AUTHORITY | MONTANA HERITAGE COMMISSION | MONTANA PROMOTION DIVISION | RESEARCH & COMMERCIALIZATION | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Personal Services | | | | | | | | | | | |
| Salaries | $ 1,988,507 | $ 1,716,376 | $ 925,171 | $ 204,760 | $ 1,792,880 | $ 1,232,284 | $ 150,568 | $ 649,325 | $ 1,273,436 | | $ 9,933,307 |
| Hourly Wages | | | | | | | | | 450 | | 450 |
| Other Compensation | 5,850 | 1,600 | 1,100 | | 4,250 | | 4,150 | | | $ 50 | 17,000 |
| Employee Benefits | 515,631 | 547,923 | 286,945 | 64,005 | 624,036 | 366,915 | 46,771 | 216,207 | 431,361 | | 3,099,794 |
| Personal Services-Other | 17,239 | | | | (4,118) | 12,744 | (6,810) | | | | 19,055 |
| Total | 2,527,227 | 2,265,899 | 1,213,216 | 268,765 | 2,417,048 | 1,611,943 | 194,679 | 865,532 | 1,705,247 | 50 | 13,069,606 |
| Operating Expenses | | | | | | | | | | | |
| Other Services | 1,215,968 | 2,940,663 | 48,225 | 50,549 | 5,707,205 | 70,287 | 30,785 | 199,661 | 4,187,414 | | 14,450,757 |
| Supplies & Materials | 42,944 | 96,369 | 34,901 | 12,053 | 119,127 | 85,523 | 5,550 | 75,398 | 201,385 | | 673,250 |
| Communications | 40,317 | 107,352 | 49,243 | 11,055 | 109,064 | 41,301 | 6,571 | 42,155 | 5,493,705 | | 5,900,763 |
| Travel | 28,620 | 159,326 | 25,075 | 24,791 | 93,085 | 31,425 | 13,565 | 28,702 | 133,246 | (57) | 537,778 |
| Rent | 201,259 | 173,782 | 96,979 | 13,780 | 216,663 | 132,427 | 23,575 | 7,476 | 223,250 | 57 | 1,089,248 |
| Utilities | | 2,964 | | | | | | 97,601 | | | 100,565 |
| Repair & Maintenance | 1,618 | 10,148 | 19,735 | 753 | 218,784 | 4,343 | 269 | 98,944 | 42,413 | | 397,007 |
| Other Expenses | 483,272 | 481,762 | 183,611 | 74,857 | 628,354 | 92,561 | 41,552 | 140,800 | 656,043 | | 2,782,812 |
| Goods Purchased For Resale | | | | | | | | 10,517 | | | 10,517 |
| Total | 2,013,998 | 3,972,366 | 457,769 | 187,838 | 7,092,282 | 457,867 | 121,867 | 701,254 | 10,937,456 | | 25,942,697 |
| Equipment & Intangible Assets | | | | | | | | | | | |
| Equipment | | | | | | | | | 22,063 | | 22,063 |
| Intangible Assets | | | | | 22,303 | | | | | | 22,303 |
| Total | | | | | 22,303 | | | | 22,063 | | 44,366 |
| Capital Outlay | | | | | | | | | | | |
| Buildings | | | | | | | | 18,000 | | | 18,000 |
| Other Improvements | | | | | | | | 10,840 | | | 10,840 |
| Total | | | | | | | | 28,840 | | | 28,840 |
| Local Assistance | | | | | | | | | | | |
| From State Sources | | | | | | | | | 3,909,131 | | 3,909,131 |
| Total | | | | | | | | | 3,909,131 | | 3,909,131 |
| Grants | | | | | | | | | | | |
| From State Sources | | 12,543,854 | 27,753,162 | | | 33,199,500 | 70,811 | | 755,230 | | 74,322,557 |
| From Federal Sources | | 2,355,578 | 12,566,073 | | 17,891,416 | 704,372 | | | | | 33,517,439 |
| Total | | 14,899,432 | 40,319,235 | | 17,891,416 | 33,903,872 | 70,811 | | 755,230 | | 107,839,996 |
| Benefits & Claims | | | | | | | | | | | |
| From Federal Sources | | | | | 36,501,083 | | | | | | 36,501,083 |
| STIP Distrib to Local Govts | 839,595,960 | | | | | | | | | | 839,595,960 |
| Total | 839,595,960 | | | | 36,501,083 | | | | | | 876,097,043 |
| Transfers-out | | | | | | | | | | | |
| Fund transfers | 472,340 | 3,906,975 | | | 720,708 | | | | 568,611 | | 5,668,634 |
| Intra-Entity Expense | | | | | | | 22,299 | | | | 22,299 |
| Total | 472,340 | 3,906,975 | | | 720,708 | | 22,299 | | 568,611 | | 5,690,933 |
| Debt Service | | | | | | | | | | | |
| Bonds | 1,835,887 | | | | 40,332,622 | | | | | | 42,168,509 |
| Total | 1,835,887 | | | | 40,332,622 | | | | | | 42,168,509 |
| Other Post Employment Benefits | | | | | | | | | | | |
| Other Post Employment Benefits | 80,516 | | | | 130,448 | 50,231 | 6,913 | | | | 268,108 |
| Total | 80,516 | | | | 130,448 | 50,231 | 6,913 | | | | 268,108 |
| Total Expenditures & Transfers-Out | $ 846,525,928 | $ 25,044,672 | $ 41,990,220 | $ 456,603 | $ 105,107,910 | $ 36,023,913 | $ 416,569 | $ 1,595,626 | $ 17,897,738 | $ 50 | $ 1,075,059,229 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | | |
| General Fund | | $ 13,584,797 | $ 18,846,916 | $ 404,317 | | $ 76,832 | | | $ 200,000 | | $ 33,112,862 |
| State Special Revenue Fund | | 7,730,638 | 10,219,042 | 30,854 | $ 4,000 | 33,657,607 | | $ 1,027,346 | 17,697,738 | $ 50 | 70,367,275 |
| Federal Special Revenue Fund | | 3,700,010 | 12,924,262 | 21,432 | 18,949,469 | 704,372 | | | | | 36,299,545 |
| Capital Projects Fund | | 29,227 | | | | | | 568,280 | | | 597,507 |
| Enterprise Fund | $ 2,168,325 | | | | 86,154,441 | | $ 416,569 | | | | 88,739,335 |
| Internal Service Fund | 4,761,643 | | | | | 1,585,102 | | | | | 6,346,745 |
| Investment Trust Fund | 839,595,960 | | | | | | | | | | 839,595,960 |
| Total Expenditures & Transfers-Out | 846,525,928 | 25,044,672 | 41,990,220 | 456,603 | 105,107,910 | 36,023,913 | 416,569 | 1,595,626 | 17,897,738 | 50 | 1,075,059,229 |
| Less: Nonbudgeted Expenditures & Transfers-Out | 840,175,750 | (10,323,556) | 627 | | 867,470 | 58,427 | 232 | 643 | 102,247 | | 830,881,840 |
| Prior Year Expenditures & Transfers-Out Adjustments | (16,650) | (832,825) | (7,697,090) | (6,524) | (808,258) | (31,427) | | 2,703 | (30,701) | 50 | (9,420,722) |
| Actual Budgeted Expenditures & Transfers-Out | 6,366,828 | 36,201,053 | 49,686,683 | 463,127 | 105,048,698 | 35,996,913 | 416,337 | 1,592,280 | 17,826,192 | 0 | 253,598,111 |
| Budget Authority | 9,098,023 | 45,762,498 | 92,262,301 | 588,499 | 158,569,179 | 41,687,290 | 457,528 | 2,891,831 | 19,176,873 | | 370,494,022 |
| Unspent Budget Authority | $ 2,731,195 | $ 9,561,445 | $ 42,575,618 | $ 125,372 | $ 53,520,481 | $ 5,690,377 | $ 41,191 | $ 1,299,551 | $ 1,350,681 | $ 0 | $ 116,895,911 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | | |
| General Fund | | $ 2,534,960 | $ 2,916,653 | $ 46,779 | | $ 83,793 | | | | | $ 5,582,185 |
| State Special Revenue Fund | | 4,200,226 | 23,927,952 | 25 | $ 124,200 | 5,597,256 | | $ 631,271 | $ 1,350,681 | | 35,831,611 |
| Federal Special Revenue Fund | | 2,826,259 | 15,731,013 | 78,568 | 14,550,228 | | | | | | 33,186,068 |
| Capital Projects Fund | | | | | | | | 668,280 | | | 668,280 |
| Enterprise Fund | $ 2,110,144 | | | | 38,846,053 | | $ 41,191 | | | | 40,997,388 |
| Internal Service Fund | 621,051 | | | | | 9,328 | | | | $ | 630,379 |
| Unspent Budget Authority | $ 2,731,195 | $ 9,561,445 | $ 42,575,618 | $ 125,372 | $ 53,520,481 | $ 5,690,377 | $ 41,191 | $ 1,299,551 | $ 1,350,681 | $ 0 | $ 116,895,911 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

# 1. Summary of Significant Accounting Policies

## Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, and Permanent) and certain liabilities of defined benefit pension plans. In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary ( Investment Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

## Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

## Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Distressed Woods, Micro-business Loans, School Facilities and Tech Account, Treasure State Endowment Fund, and Montana Heritage Commission.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include assistance programs such as Community Development Block Grants, Housing Tax Credit Exchange, Neighborhood Stabilization, and Home grants.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for costs of historic preservation and supporting improvements in Virginia and Nevada Cities.
- **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal may be used for purposes that support the department's programs. The department uses this fund to account for income from sales of personal property by the Montana Heritage Commission.

## Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the Investment Division and the Managment Services/Director's Office.
- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include Facility Finance Authority, Board of Housing, Board of Investments Industrial Revenue Bonds, and Section 8 Housing Programs.

## Fiduciary Fund Category

- **Investment Trust Fund** – to account for situations where legally separate governments commingle their investments in a pool for the benefit of all participants. The department's Investment Trust fund is the Short Term Investment Pool managed by the Board of Investment which accounts for all investing activity for local governments.

## 2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for the fiscal years ended June 30, 2011, and June 30, 2010.

## 3. Direct Entries to Fund Balance

The majority of the total direct entries to fund balances in the General and State Special Revenue Funds relate to entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

## 4. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery.

The Department of Commerce received federal funding from ARRA totaling approximately $49,211,564. Of this amount, $40,426,738 was appropriated in House Bill 645 of the 2009 Legislative Session, and $8,784,826 was awarded through other competitive or noncompetitive grants or in nonmonetary assistance. The majority of these funds were spent by June 30, 2011.

## 5. Enterprise Fund Investment Earnings Revenue Estimate

A data entry error was made when inputting the revenue estimate on the state's accounting system for Board of Housing Investment Earnings. The effect of the error on the Schedule of Revenues and Transfers-In for fiscal year 2010 is summarized below.

| Line on Financial Schedule | Amount on Schedule | Correct Amount |
|---|---|---|
| Estimated Revenue | $509,363,204 | $87,802,171 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $(466,214,729) | $(44,653,696) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated by Class Investment Earnings | $(466,692,029) | $(45,130,996) |

## Department of Commerce

## Department Response

MONTANA
Department of Commerce

Dore Schwinden, Director

301 S. Park Ave. ★ P.O. Box 200501 ★ Helena, Montana 59620-0501
Phone 406-841-2700 ★ Fax 406-841-2701 ★ TDD: 406-841-2702 ★ http://commerce.mt.gov

January 11, 2012

Ms. Tori Hunthausen
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, Montana 59620-1705



Dear Ms. Hunthausen:

We have reviewed the recommendations pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ended June 30, 2011. Our response is as follows:

**RECOMMENDATION #1**
**We recommend the department disburse funds from the treasury only upon an appropriation charge as required by the Montana State Constitution and state law.**

Response:
The department does not concur. The auditor notes five disbursements where "the department disbursed funds from the state treasury and did not immediately charge an appropriation on SABHRS."

As noted in the audit, the Montana Constitution, Article VIII, Section 14, prohibits money from being "paid out of the treasury unless upon an appropriation made by law…" In every one of the five disbursements noted by the auditor, the Department had an "appropriation made by law."

| Payment and Fund | Amount | Appropriation Made By Law | Days Until Charge to SABHRS |
|---|---|---|---|
| TSEP – SSR | $321,482 | HB 11 | 2 days |
| HB 645 County Payment – GF | $144,488 | HB 645 | 2 days |
| Deferred Maintenance – SSR | $1,357,797 | HB 645 | 5 days |
| ARRA CDBG – FSRF | $200,000 | HB 645 | 8 days |
| 301 S Park July Building Rent | $64,390 | Various (HB 2, HB645, HB11, HB576, Statutory) | Range |

The auditor provides no basis for its finding that the Department's reliance on an appropriation made by law in making these distributions is unconstitutional. The auditor insists that the Montana Constitution requires an appropriation be charged to the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) in order to qualify as an "appropriation made by law." There is no legal basis for this position, and, in fact, it undermines the sole constitutional authority of the Legislative branch to appropriate the funds of the state.

Neither the Montana Constitution, nor state statute (Section 17-8-101, *et seq*., MCA) restrict the definition of "appropriation made by law" to those charged on SABHRS. In fact, the only reference to SABHRS is found in Section 17-8-101(2)(b), MCA, where the statute provides that enterprise and certain other special revenue type funds may only be paid out of the treasury <u>when a subclass is established in the state financial system</u> in those situations where there is no appropriation (i.e., the disbursement is based on general laws or contracts). That was not the case for any of the five disbursements identified by the auditor – all five were based on a specific appropriation contained in law passed by the Legislature.

<u>**RECOMMENDATION #2**</u>

**We recommend the department follow its established authorization controls to ensure all grant payments are valid.**

<u>Response:</u>

The department partially concurs. The auditors identified two areas where they felt there was a lack of controls: Contract Approval and Program Payment Approval. The department has two controls for the contracts. The first control is to have the program complete a contract checklist to attach to the contract. This form is to be signed by an authorized signator from the program, fiscal reviewer, and legal reviewer. The contract is sent out by the program to obtain the contractors' signature. The second control is when the contract is returned to the department, the Division Administrator or the Director is the final signature on the contract. If there are any issues at this time, the contract is not signed. We are currently ensuring all signatures are obtained on the contract checklist.

<u>**RECOMMENDATION #3**</u>

**We recommend the department monitor subrecipients for contract compliance to ensure that funds are expended as intended.**

<u>Response:</u>

The department does not concur. During calendar year 2009, Quality Schools staff in the Department administered three separate school funding programs:

1) <u>Quick Start Grant Program</u> - $14.95 million in grant awards for energy audits or energy efficiency improvements. One time only program. Schools had to apply for these funds, and if awarded, had to spend the funds by September 30, 2009.

2) Deferred Maintenance Program - $19.8 million in distribution to schools based on the quality educator formula, to be used for deferred maintenance or energy efficiency improvements. One time only program. Schools had to sign the Governor's assurances document to received funds, and had to spend the funds by September 30, 2010.

3) Quality Schools Grant Program -- $12 million in grant awards during 2011 biennium for purposes set forth in Sections 90-6-800 *et seq.*, MCA. On-going program. Schools applied for these planning, emergency, and infrastructure funds during the 2011 biennium and the funds were competitively ranked and awarded by the Department.

Audit Finding #3 relates solely to the Deferred Maintenance Program. In July 2009, the Department began to gear up for the Deferred Maintenance fund distribution. The Department received the final distribution of quality educator funds from Nancy Hall at OBPP and Joan Anderson at OPI on July 20, 2009: the final number was $19,776,525. The Department was directed to post this distribution list to the Quality Schools website, and was given accounting guidance documents from OPI showing the fund, revenue code, and expenditure codes for schools to use in spending deferred maintenance money.

The distribution of the funds to a school district was contingent on a district signing the Governor's "Assurances" agreement. By executing this agreement, the districts agreed to certain educational reforms, reporting requirements, accountability standards, and other assurances.

These conversations with and the requirements set forth by OPI and OBPP placed restrictions on the schools for what the money they received from HB 645 and ARRA could be used for, and set forth reporting requirements for those funds. Unlike any of grant programs at the Department, there was no discretion on the part of the Department regarding the distribution of these funds to the school districts. If a district signed the assurances document, they were entitled to their quality educator deferred maintenance payment through the Department. The Quality Schools program established a two part disbursement of the funds, to help ensure that the schools would report on their use of the funds.

Like all funds distributed to schools through OPI, the schools are responsible for accounting for use of these funds, through detailed coding and auditing requirements. During the audit, the Department specifically requested that the auditors contact OPI to gain an understanding of that system and how the school funding system works. OPI's funding system is very different from the Department's grant programs, where funding is awarded at the discretion of the Department through competitive application process. In addition, the assurances document required them to report to OPI on the use of all funds received and a description of each "modernization, renovation, or repair project funded, including the amounts awarded and project costs." During the audit, the Department received an email from Joan Anderson, Assistant Superintendent of Operations at OPI, verifying that schools are directly accountable to OPI for the proper use of the deferred maintenance funds and that any independent audits documenting deviations would be reported to the Department.

Further, the final close-out reports are not the only verification staff had regarding the use of the funds. First, in accordance with the requirements set forth by OBPP and OPI, the schools were

required to submit monthly, then quarterly, reporting forms that documented the expenditure of HB 645 and ARRA funds during the previous reporting period. These reports were submitted to the Department, reviewed by staff, and an electronic copy kept in the district's file. The final close out report acted as both a final drawdown request and a final quarterly report for each school.

In addition, Department staff did do a number of monitoring visits to schools during July-August 2009 to verify the completion of Quick Start projects. The school districts in Plains, Noxon, Thompson Falls, Olney Bissell, Centerville, and Winifred are examples of schools that were monitored that also used their deferred maintenance funds for the same project. During these monitoring visits, staff would speak with the superintendent of a district or principal of the school facility; discuss the progress of the project, ask about the procurement followed by the district, how much had been invoiced, and whether they expected to have funds left over the project. Staff usually toured the facility(ies) and took photo documentation of the improvements.

Finally, there was no definition of "deferred maintenance" in HB 645. However, schools do have other funding classes they are allowed to use for deferred maintenance, and the Department repeatedly advised schools that the same considerations would apply for these funds. The Department also advised them that they were the party ultimately responsible for answering to the use of the funds under both the assurances agreement and normal oversight by OPI, and to contact OPI if they had any questions about the correct use or coding of the funds.

**RECOMMENDATION #4**

**We recommend the department implement controls to ensure reimbursements to MCDD are allowable per the state plan and federal regulations.**

Response:

The department concurs. The reimbursement requests submitted by MCDD currently include scanned copies of all bills. The department uses A-87 when reviewing invoices. MCDD also has an independent accounting review completed. To date, all reports have stated there was no missing documentation. The department is relying on internal review of invoices at time of reimbursement request and the accounting review. MCDD has changed its process for scanning invoices to ensure the name of the vendor is showing on the document. The department will keep a copy of the state plan on file for reference.

**RECOMMENDATION #5**

**We recommend the department comply with federal regulations regarding information required to be provided to ARRA subrecipients.**

Response:

The department concurs. The department included some of this information in the contract and the payment advice contained the contract number. We will include all of the required information on future payment advices.

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,

Dore Schwinden
Director